



Billing Code [8025-01]

## SMALL BUSINESS ADMINISTRATION

### Community Advantage Pilot Program

AGENCY: U.S. Small Business Administration.

ACTION: Notice of changes to Community Advantage Pilot Program.

SUMMARY: On February 18, 2011, SBA published a notice introducing the Community Advantage Pilot Program. In that notice, SBA provided an overview of the Community Advantage Pilot Program requirements, including the application process to participate, and SBA modified or waived as appropriate certain regulations, which otherwise apply to the 7(a) loan program, for the Community Advantage Pilot Program. SBA continues to refine and improve the design of the Community Advantage Pilot Program. To support SBA's commitment to expanding access to capital for small businesses and entrepreneurs in underserved markets, SBA is issuing this Notice to revise certain program requirements, including certain of the regulatory waivers.

DATES: EFFECTIVE DATE: This Notice is effective [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER].

APPLICABILITY DATE: This Notice applies to Community Advantage Pilot Program loan applications (or requests for loan numbers submitted under a lender's delegated authority) approved by SBA on or after [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER].

FOR FURTHER INFORMATION CONTACT: Grady B. Hedgespeth, Director, Office of Financial Assistance, U.S. Small Business Administration, 409 Third Street, SW., Washington DC 20416; (202) 205-7562; [grady.hedgespeth@sba.gov](mailto:grady.hedgespeth@sba.gov).

SUPPLEMENTARY INFORMATION: On February 18, 2011, SBA issued a notice and request for comments introducing the Community Advantage Pilot Program (“CA Pilot Program”) (76 FR 9626). The CA Pilot Program was introduced to increase SBA-guaranteed loans to small businesses in underserved markets. The February 18, 2011 notice provided an overview of the CA Pilot Program requirements and, pursuant to the authority provided to SBA under 13 CFR 120.3 to suspend, modify or waive certain regulations in establishing and testing pilot loan initiatives, SBA modified or waived as appropriate certain regulations which otherwise apply to 7(a) loans for the CA Pilot Program. SBA continues to refine and improve the design of the CA Pilot Program and, on September 12, 2011, SBA issued a notice modifying certain of those regulatory waivers in order to permit Community Advantage Lenders (“CA Lenders”) to pledge loans made under the CA Pilot Program (“CA loans”) as collateral for certain lender financings that are approved by SBA. (76 FR 56262) In response to comments received on the CA Pilot Program and to further support SBA’s commitment to expanding access to capital for small businesses and entrepreneurs in underserved markets, SBA is issuing this Notice to revise several of the original program requirements, including certain regulatory waivers, as described more fully below.

In the February 18, 2011 notice, SBA waived the regulations at 13 CFR 120.213, 120.214 and 120.215 and set the maximum allowable interest rate that CA Lenders may charge for CA loans at prime + 4%. SBA is now increasing the maximum allowable rate that a CA Lender may

charge a borrower to prime + 6%. Therefore, SBA is continuing to waive the regulations at 13 CFR 120.213, 120.214 and 120.215 to allow CA Lenders to charge prime + 6% on CA Loans.

Additionally, in response to comments received on the initial notice announcing the CA Pilot Program, SBA is modifying the program requirements to allow participating CA Lenders to contract with Lender Service Providers (LSPs) as defined at 13 CFR 103.1(d). In accordance with Agency regulations at 13 CFR 120.410, a CA Lender must have a continuing ability to evaluate, process, close, disburse, service, liquidate and litigate small business loans. A CA Lender may contract with a third party (an LSP) to assist with one or more of these functions. However, the CA Lender itself, not the LSP, has ultimate responsibility for evaluating, processing, closing, and liquidating its SBA loan portfolio.

SBA is also removing “Tier Two - Conditional Delegation” from the levels of delegated authority that a CA Lender may receive. Thus, there will only be two distinct categories: delegated authority and non-delegated authority. The remaining pilot program requirements pertaining to delegated authority, including how to request delegated authority and when a CA Lender can begin processing CA loans using delegated authority, remain unchanged.

SBA is further modifying the requirements for CA Lenders to sell loans in the secondary market by allowing CA Lenders to request authority either at the time of application or after one year of participation. CA Lenders granted permission for secondary market sales must have additional reserves and must complete additional training related to secondary market activities and requirements before they are allowed to initiate secondary market sales.

Finally, in response to comments received on the initial notice announcing the CA Pilot Program, SBA is revising the original lender oversight strategy to better clarify the expected costs and schedule of oversight. The February 18, 2011 notice provided that all participating

lenders will receive an examination or review after the first year of operation. The revised strategy removes this requirement and explains that SBA will monitor CA Lenders using various oversight tools, including but not limited to Off-Site Reviews, Desk Reviews, Agreed Upon Procedures On-site Reviews, On-site Risk Based Reviews and On-Site Examinations. SBA's Office of Credit Risk Management (OCRM) will evaluate the CA Lender's level of activity, performance metrics, risk rating, effectiveness in reaching SBA targeted underserved market segments and other relevant information to determine the appropriate oversight tool(s) to employ. Lender risk evaluations will also include a review of information from SBA's processing, servicing and liquidation/guaranty purchase centers. SBA anticipates that the cost for off-site monitoring through desk reviews conducted by OCRM will be approximately \$150 per \$1 million in loans outstanding. Additional costs for more extensive reviews and examinations will vary based on the CA Lender's portfolio size and performance, as well as OCRM's assessment of the CA Lender.

All other SBA guidelines and regulatory waivers related to the CA Pilot Program remain unchanged.

In connection with the CA Pilot Program, SBA also issued a Community Advantage Participant Guide to provide more detailed guidance on the CA Pilot Program requirements. This guide was posted on SBA's website at <http://www.sba.gov>. SBA has issued a revised Community Advantage Participant Guide that incorporates all of these changes. The revised Community Advantage Participant Guide is available on SBA's website at <http://www.sba.gov/sites/default/files/files/CA%20-%20Participants%20Guide.pdf>. In addition to issuing this Notice and the revised CA Participant Guide, SBA will modify SBA Forms 2301, Parts A, B, C and D to reflect these changes. Finally, SBA will modify the Community

Advantage Lender Participation Application (SBA Form 2301, Part E). The application form also may be found on SBA's website at

[http://www.sba.gov/sites/default/files/tools\\_sbf\\_forms\\_2301e.pdf](http://www.sba.gov/sites/default/files/tools_sbf_forms_2301e.pdf).

SBA may provide additional guidance, through SBA notices, which may also be published on SBA's website at <http://www.sba.gov/category/lender-navigation/forms-notices-sops/notices>. Questions regarding the CA Pilot Program may be directed to the Lender Relations Specialist in the local SBA district office. The local SBA district office may be found at <http://www.sba.gov/about-offices-list/2>.

AUTHORITY: 15 U.S.C. 636(a)(25) and 13 CFR 120.3.

Karen G. Mills,  
Administrator.

February 1, 2012

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